



**STATE OF INDIANA REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**June 30, 2005 and 2004**

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

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## *Independent Auditors' Report*

State of Indiana  
State Revolving Fund Programs

We have audited the accompanying combined financial statements of the State Revolving Fund Programs, an enterprise fund of the State of Indiana, as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These combined financial statements are the responsibility of the Programs' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund Programs at June 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis presented on pages 2-5 is not a required part of the basic combined financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2005, on our consideration of the State Revolving Fund Programs' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
August 17, 2005

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the State Revolving Fund Wastewater and Drinking Water Programs (the Programs), we offer readers of the Programs' combined financial statements this narrative overview of Management's Discussion and Analysis (MD&A) of the financial activities of the Programs for the fiscal year ended June 30, 2005. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are approximate.

**FINANCIAL HIGHLIGHTS**

The assets of the Programs exceeded their liabilities at the close of the most recent fiscal year by \$703.8 million (net assets). All of these net assets are restricted for water pollution and drinking water projects and other program purposes.

The Programs' liability to the Indiana Bond Bank decreased by \$41.8 million during the current fiscal year. This decrease in debt is the result of debt repayment and no new bond issues during the current fiscal year.

The Programs' total net assets increased by \$39.3 million during the current fiscal year. Of this amount, \$34.7 million consists of capital contributions (grants) from EPA.

**OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the Programs' basic combined financial statements (Report). The Programs are maintained by the State of Indiana as Enterprise Funds. Enterprise Funds are used to report any activities for which income fees are charged to external users for goods and services. In addition, Enterprise Funds must be used in situations where debt is backed solely by fees and charges. An Enterprise Fund is accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting. The Programs' basic combined financial statements include combined statements of net assets, combined statements of revenues, expenses and changes in net assets, combined statements of cash flows, and the notes to the combined financial statements. The Report also contains other supplementary information in addition to the basic combined financial statements themselves. All information included in the MD&A is presented for the three most recent fiscal years to provide the opportunity for comparison between the years.

The *combined statements of net assets* present information on all of the Programs' assets and liabilities, with the difference between the two reported as net assets.

The *combined statements of revenues, expenses and changes in net assets* present information showing how the Programs' net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

In contrast, the *combined statements of cash flows* are concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

## OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

These combined financial statements can be found on pages 6-8 of this report.

The *notes to the combined financial statements* provide additional information that is essential to a full understanding of the data provided in the combined financial statements. The notes to the combined financial statements can be found on pages 9-20 of this report.

In addition to the basic combined financial statements and accompanying notes, this report also presents combining schedules, on pages 22-24. These combining schedules are not a required part of the basic combined financial statements, but they provide detailed financial statement information for each individual program. The combining schedules are included to provide other useful information for the readers of the basic combined financial statements.

## FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the government enterprise's financial position. In the case of the Programs, assets exceeded liabilities by \$703.8 million at the close of the most recent fiscal year.

### State Revolving Fund Programs' Net Assets (In Thousands of Dollars)

	2005	June 30, 2004	2003
Current assets	\$ 641,163	\$ 767,091	\$ 269,736
Noncurrent assets	<u>1,535,830</u>	<u>1,407,989</u>	<u>1,431,146</u>
Total Assets	<u>2,176,993</u>	<u>2,175,080</u>	<u>1,700,882</u>
Current liabilities	76,018	63,385	45,795
Long-term liabilities	<u>1,397,141</u>	<u>1,447,135</u>	<u>1,058,675</u>
Total Liabilities	<u>1,473,159</u>	<u>1,510,520</u>	<u>1,104,470</u>
Net Assets			
Restricted	<u>703,834</u>	<u>664,560</u>	<u>596,412</u>
Total Net Assets	<u>\$ 703,834</u>	<u>\$ 664,560</u>	<u>\$ 596,412</u>

Total assets have increased over the years as the Programs continued to mature, manage new and existing projects, and receive new grants. As new and existing projects are undertaken and completed, additional bonds on behalf of the Programs are issued in order to fund the projects. Therefore, long-term liabilities have also increased.

## FINANCIAL ANALYSIS (CONTINUED)

### State Revolving Fund Programs' Changes in Net Assets (In Thousands of Dollars)

	Years Ended June 30,		
	2005	2004	2003
Operating Revenues			
Interest-investments	\$ 43,400	\$ 37,747	\$ 37,625
Interest-participants	32,843	27,666	23,984
Other	<u>720</u>	<u>937</u>	<u>1,097</u>
Total Revenues	<u>76,963</u>	<u>66,350</u>	<u>62,706</u>
Operating Expenses			
Interest	67,536	57,328	54,781
Amortization of deferred charges	1,196	1,204	861
Trustee fees	1,198	549	520
Other program and administrative	<u>2,474</u>	<u>1,909</u>	<u>1,716</u>
Total Expenses	<u>72,404</u>	<u>60,990</u>	<u>57,878</u>
Operating Income	4,559	5,360	4,828
Capital Contributions (EPA Grants)	<u>34,715</u>	<u>62,789</u>	<u>17,806</u>
Increase in Net Assets	39,274	68,149	22,634
Net Assets			
Beginning of Year	<u>664,560</u>	<u>596,411</u>	<u>573,777</u>
End of Year	<u>\$703,834</u>	<u>\$664,560</u>	<u>\$596,411</u>

The Programs' net assets increased by \$39.3 million during the current fiscal year. Key elements of this increase are as follows:

The Programs received \$34.7 million in capital contributions (grants) from EPA on qualified wastewater and drinking water projects and other program purposes.

Interest income increased \$10.8 million

Total expenses increased by \$11.4 million. Interest expense on bonds payable increased \$10.2 million due to full year of expense incurred on prior fiscal year bond issues.

## DEBT ADMINISTRATION

**Long-term Debt:** At the end of the current fiscal year, the Programs' liability to the Indiana Bond Bank, net of premium/discount and unamortized loss on refunding, was \$1.444 billion. The entire amount due represents bonds issued by the Indiana Bond Bank on behalf of the State Revolving Fund Program.

### State Revolving Fund Programs' Outstanding Debt (In Thousands of Dollars)

	Years Ended June 30,		
	2005	2004	2003
Due to Indiana Bond Bank	\$1,443,836	\$1,485,652	\$1,078,634

The Programs' total liability to the Indiana Bond Bank decreased by \$41.8 million during the current fiscal year. The decrease is a result of no new bond issues in the current fiscal year.

Additional information on the Programs' long-term debt can be found in Notes 7 and 8 to the combined financial statements on pages 15-19 of this report.

## REQUESTS OF INFORMATION

This financial report is designed to provide a general overview of the Programs' finances for all those with an interest in the Programs' finances. Questions concerning any of the information should be addressed to the State Revolving Fund Wastewater and Drinking Water Programs, 100 N. Senate Avenue, Room 1275, IGCN – 12<sup>th</sup> Floor, Indianapolis, IN 46204.

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**COMBINED STATEMENTS OF NET ASSETS  
June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 571,622,475	\$ 660,835,156
Interest receivable	28,267,288	24,514,566
Due from EPA		40,703,623
Loans receivable	41,273,637	41,037,652
Total Current Assets	<u>641,163,400</u>	<u>767,090,997</u>
Noncurrent Assets:		
Investments	528,353,791	539,938,472
Loans receivable	996,278,900	856,483,167
Deferred charges, net	11,197,320	11,567,780
Total Noncurrent Assets	<u>1,535,830,011</u>	<u>1,407,989,419</u>
Total Assets	<u>2,176,993,411</u>	<u>2,175,080,416</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Interest payable	29,125,555	23,441,411
Accounts payable	197,364	147,777
Amount due federal government-current		431,201
Due to Indiana Bond Bank-current	46,695,000	39,365,000
Total Current Liabilities	<u>76,017,919</u>	<u>63,385,389</u>
Long-term Liabilities:		
Amount due to federal government		847,415
Due to Indiana Bond Bank	1,397,141,278	1,446,287,059
Total Long-term Liabilities	<u>1,397,141,278</u>	<u>1,447,134,474</u>
Total Liabilities	<u>1,473,159,197</u>	<u>1,510,519,863</u>
<b>NET ASSETS</b>		
Restricted for water pollution and drinking water projects and other program purposes	<u>\$ 703,834,214</u>	<u>\$ 664,560,553</u>

*See accompanying notes.*



**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>OPERATING REVENUE</b>		
Interest income-investments	\$ 43,400,540	\$ 37,746,843
Interest income-participants	32,843,079	27,666,546
Other	719,742	936,635
Total Operating Revenue	<u>76,963,361</u>	<u>66,350,024</u>
<b>OPERATING EXPENSES</b>		
Interest	67,536,022	57,328,002
Amortization of deferred charges	1,195,739	1,203,656
Trustee fees	1,198,638	549,275
Other program and administrative	2,473,860	1,909,313
Total Operating Expenses	<u>72,404,259</u>	<u>60,990,246</u>
<b>OPERATING INCOME</b>	4,559,102	5,359,778
<b>CAPITAL CONTRIBUTIONS</b>	<u>34,714,559</u>	<u>62,789,366</u>
<b>INCREASE IN NET ASSETS</b>	39,273,661	68,149,144
<b>NET ASSETS</b>		
Beginning of Year	<u>664,560,553</u>	<u>596,411,409</u>
End of Year	<u><u>\$ 703,834,214</u></u>	<u><u>\$ 664,560,553</u></u>

*See accompanying notes.*

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**COMBINED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash payments for salaries, administrative and other expenses	\$ (3,622,911)	\$ (2,669,105)
Administration fee	30,000	2,000
Other operating income	689,742	934,635
Net Cash (Used) by Operating Activities	<u>(2,903,169)</u>	<u>(1,732,470)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of loans to participants	46,569,205	36,379,168
Issuance of loans to participants	(192,365,150)	(146,248,520)
Decrease in investments	13,436,028	128,662,611
Interest received on loans and investments	76,243,619	65,651,687
Net Cash Provided (Used) by Investing Activities	<u>(56,116,298)</u>	<u>84,444,946</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from debt issuance		539,964,636
Principal payments to reduce indebtedness	(39,365,000)	(133,634,335)
Payment of issuance costs	(825,277)	(3,349,869)
(Decrease) in amount due to federal government	(847,415)	(473,238)
Interest paid on debt	(64,573,704)	(56,210,106)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(105,611,396)</u>	<u>346,297,088</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital contributions (EPA grants)	75,418,182	39,942,248
Net Cash Provided by Capital Financing Activities	<u>75,418,182</u>	<u>39,942,248</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(89,212,681)	468,951,812
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>660,835,156</u>	<u>191,883,344</u>
End of Year	<u>\$ 571,622,475</u>	<u>\$ 660,835,156</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 4,559,102	\$ 5,359,778
Adjustments to reconcile operating income to net cash used by operating activities:		
Interest income	(76,243,619)	(65,413,389)
Interest expense	67,536,022	57,328,002
Amortization of deferred charges	1,195,739	1,203,656
Changes in assets and liabilities:		
Accounts payable	49,587	(210,517)
Net Cash Used by Operating Activities	<u>\$ (2,903,169)</u>	<u>\$ (1,732,470)</u>

*See accompanying notes.*

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Wastewater State Revolving Fund Program (WSRF) and the Drinking Water State Revolving Fund Program (DWSRF), collectively known as the State Revolving Fund Programs (the Programs), conform to generally accepted accounting principles as applicable to governmental units in the United States. The following is a summary of significant policies:

**Reporting Entity:** The accompanying combined financial statements report only on the financial activities associated with the Programs which are an enterprise fund of the State of Indiana. The combined financial statements do not represent a comprehensive annual financial report of the State of Indiana.

**Principles of Combination:** The combined financial statements of the State Revolving Fund Programs include the accounts of the Wastewater State Revolving Fund Program and the Drinking Water State Revolving Fund Program. All significant intercompany accounts and transactions have been eliminated.

**Basis of Presentation and Accounting:** The State Revolving Fund Programs are accounted for as Enterprise Funds. An Enterprise Fund is used to account for an operation where periodic determination of revenues earned, expenses incurred, and net income on an accrual basis is appropriate (accrual method). Accordingly, the State Revolving Fund Programs recognize revenues in the period earned and expenses in the period incurred.

The Programs follow the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the Programs follow all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB Statements.

**The Wastewater State Revolving Fund Program and Drinking Water State Revolving Fund Program:** The federal Water Quality Act of 1987 as amended in 1996, authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State of Indiana (State) established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State has established a public drinking water system program to provide financial assistance for eligible projects. Financial assistance includes making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems.

The State has capitalized its WSRF and DWSRF Programs with payments made under capitalization grants and with required state matching funds. Payments under and the use of capitalization grants are subject to federal law and regulated by the federal government, acting through the EPA.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Under the WSRF and DWSRF Acts, the State's Department of Environmental Management (Department) and the Budget Agency (Budget Agency) have responsibility for the administration and management of the WSRF and DWSRF Programs. The State entered into Trust Indentures with J.P. Morgan Trust Company, N.A. to establish a series of separate funds and accounts for operation of the Programs. The indentures create state revolving funds (the Funds) and govern the use of certain bond proceeds and capitalization grants under the Water Quality Act and the DWSRF Act. The Programs are being operated initially as leveraged programs, whereby the earnings on certain moneys deposited in the Funds, including payments on loans made from the Funds, are applied to pay debt service on bonds issued to finance the Programs.

The capitalization grants are deposited into the reserve accounts and available to pay for the Revenue Bonds. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations. States are required to provide an additional 20 percent of the federal capitalization grant as matching funds in order to receive a grant. These matching funds have been provided through the issuance of revenue bonds payable and from the earnings on the funds. Federal contributions are funded and recognized as capital contributions when amounts are received. The State may use amounts of up to 4 percent of the federal capitalization grant to pay salaries and administrative costs incurred.

The Indiana Bond Bank (Bond Bank) on behalf of the Programs has issued Series 1997A, 1998A, 2000A, 2000B, 2001A, 2002A, 2002B, 2004A, 2004B and 2004C Bonds which are summarized in Note 8. Each bond series supports separate participant projects through loans as summarized in Note 4.

In 1998, the State expanded the State Revolving Fund Program to include the Drinking Water Program and the proceeds of the Series 1998A, 2000A, 2000B, 2001A, 2002B and 2004B Bonds were allocated to the Drinking Water Program as well as the WSRF Program. The proceeds were allocated by the Program Representative based on the current and projected loan demand of participants and on the timing of the State Matches for each Program.

***Restricted Net Assets*** are available for providing financial assistance related to water pollution control and drinking water projects and other program purposes.

***Cash and Cash Equivalents*** are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

***Investments*** are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2005 and 2004, market approximates cost. Changes in the fair value of investments are included in the statement of revenues, expenses and changes in net assets.

***Estimates:*** Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

***Reclassification:*** Certain amounts in the June 30, 2004 financial statements have been reclassified to conform with the 2005 financial statement presentation.

## NOTE 2 - CASH AND INVESTMENTS

All cash and investments are held by, or in the name of, JP Morgan Trust Company, NA, as trustee under certain indentures of trusts (Trust Indentures) pertaining to the Programs and the bonds issued in connection with the Programs. Pursuant to the Programs' enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the Programs' investments.

A summary of cash and investments as of June 30, 2005 and 2004 follows:

	<b>2005</b>		<b>2005</b>		<b>Total</b>	
	<b>Wastewater</b>		<b>Drinking Water</b>		<b>Fair Value</b>	<b>Cost</b>
	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>		
Money market funds	\$504,564,202	\$504,564,202	\$ 67,058,273	\$ 67,058,273	\$ 571,622,475	\$ 571,622,475
Guaranteed investment contracts	444,857,483	444,857,483	83,091,308	83,091,308	527,948,791	527,948,791
Government obligations	<u>405,000</u>	<u>405,000</u>	<u></u>	<u></u>	<u>405,000</u>	<u>405,000</u>
	<u>\$949,826,685</u>	<u>\$949,826,685</u>	<u>\$150,149,581</u>	<u>\$150,149,581</u>	<u>\$1,099,976,266</u>	<u>\$1,099,976,266</u>
	<b>2004</b>		<b>2004</b>		<b>Total</b>	
	<b>Wastewater</b>		<b>Drinking Water</b>		<b>Fair Value</b>	<b>Cost</b>
	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>		
Money market funds	\$ 605,052,511	\$605,052,511	\$ 55,782,645	\$ 55,782,645	\$ 660,835,156	\$ 660,835,156
Guaranteed investment contracts	454,969,614	454,969,614	84,563,858	84,563,858	539,533,472	539,533,472
Government obligations	<u>405,000</u>	<u>405,000</u>	<u></u>	<u></u>	<u>405,000</u>	<u>405,000</u>
	<u>\$1,060,427,125</u>	<u>\$1,060,427,125</u>	<u>\$140,346,503</u>	<u>\$140,346,503</u>	<u>\$1,200,773,628</u>	<u>\$1,200,773,628</u>

**NOTE 2 - CASH AND INVESTMENTS (CONTINUED)****Investment Type and Interest Rate Risk Disclosure**

As of June 30, 2005, the Programs had the following investments and maturities (amounts are in thousands):

<b>Wastewater</b>					
<b>Investment Maturities (in years)</b>					
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More than 10</b>
Money market funds	\$504,564	\$504,564			
Guaranteed investment contracts	444,858	5,803	\$25,161	\$83,973	\$329,921
Government obligations	<u>405</u>	<u></u>	<u>405</u>	<u></u>	<u></u>
	<u>\$949,827</u>	<u>\$510,367</u>	<u>\$25,566</u>	<u>\$83,973</u>	<u>\$329,921</u>
<b>Drinking Water</b>					
<b>Investment Maturities (in years)</b>					
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More than 10</b>
Money market funds	\$ 67,058	\$67,058			
Guaranteed investment contracts	<u>83,091</u>	<u>1,574</u>	<u>\$7,358</u>	<u>\$17,893</u>	<u>\$56,266</u>
	<u>\$150,149</u>	<u>\$68,632</u>	<u>\$7,358</u>	<u>\$17,893</u>	<u>\$56,266</u>

**Credit Risk Disclosure**

The following table (in thousands of dollars) provides information on the credit ratings associated with the Programs' investments in debt securities, excluding obligations of the U.S. government or obligations explicitly guaranteed by the U.S. Government at June 30, 2005:

	<b>S&amp;P</b>	<b>Fitch</b>	<b>Moody's</b>	<b>Fair Value</b>
Money market funds	AAA	AAA	Aaa	\$ 571,622
Guaranteed investment contracts	Unrated	Unrated	Unrated	527,949
U.S. Agency bonds	AAA	AAA	Aaa	<u>405</u>
Total rated investments				<u>\$1,099,976</u>

The foregoing shown investments are secured by government securities held pursuant to securities or repurchase contracts or otherwise secured by perfect security interest in the same. Such government securities are either issued or guaranteed by the United States Government, including United States Treasury obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Fannie Mae, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America, including, but not limited to, mortgage participation certificates, mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities.

## NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

### Concentration of Credit Risk

The Program places no limit on the amount the Programs may invest in any one issuer. The following table shows investments in issuers that represent 5% or more of the total investments at June 30, 2005:

	Wastewater	Drinking Water
JP Morgan Prime Money Market Fund	53%	45%
AIG Matched Funding Corp. GIC	32%	31%
Salomon Reinvestment Company, Inc. GIC	9%	12%
Trinity Plus Funding Company, LLC GIC	5%	12%

## NOTE 3 - INTEREST RECEIVABLE

Interest receivable consists of accrued interest on investments and loans to qualified entities as follows:

Interest receivable at June 30, 2005:

Wastewater			Drinking Water			2005
Investments	Loans	Total	Investments	Loans	Total	Total
<u>\$12,311,564</u>	<u>\$11,983,184</u>	<u>\$24,294,748</u>	<u>\$1,991,100</u>	<u>\$1,981,440</u>	<u>\$3,972,540</u>	<u>\$28,267,288</u>

Interest receivable at June 30, 2004:

Wastewater			Drinking Water			2004
Investments	Loans	Total	Investments	Loans	Total	Total
<u>\$11,948,292</u>	<u>\$9,176,022</u>	<u>\$21,124,314</u>	<u>\$1,900,783</u>	<u>\$1,489,469</u>	<u>\$3,390,252</u>	<u>\$24,514,566</u>

## NOTE 4 - LOANS RECEIVABLE

The net proceeds from the issuance of the Bonds were deposited in the Purchase Account and are used primarily to fund loans to participants for eligible projects by purchasing their qualified obligations. The State's current intended use plans include a list of publicly-owned wastewater treatment works, a list of drinking water systems, and other projects proposed by eligible participants, which the State anticipates will be eligible for financial assistance.

The loans receivable balance at June 30, 2005 and 2004 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

	Loans Receivable as of June 30, 2005	Loans Receivable as of June 30, 2004	Actual Loan Amounts Made Available (closed loans) as of June 30, 2005
Wastewater Fund	\$ 871,622,556	\$746,275,711	\$1,325,879,766
Drinking Water Fund	<u>165,929,981</u>	<u>151,245,108</u>	<u>203,722,096</u>
Total All Loans	<u>\$1,037,552,537</u>	<u>\$897,520,819</u>	<u>\$1,529,601,862</u>

These amounts represent projects that have been submitted and approved by the State, and the loan has been closed. Loans receivable includes current portions of \$41,273,637 at June 30, 2005 and \$41,037,652 at June 30, 2004.

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

As of June 30, 2005, the outstanding balances of closed loans exceeding 50 percent of the total loans receivable and representing the Programs' largest borrowers are summarized below:

Name of Participant	Loans Receivable as of June 30, 2005	Loans Receivable as of June 30, 2004	Actual Loan Amounts Made Available (closed loans) as of June 30, 2005
<b>Wastewater Fund</b>			
Indianapolis Sanitary District	\$ 128,395,069	\$ 61,465,914	\$ 242,020,000
City of Evansville	12,920,510	13,700,510	80,347,000
City of Lafayette	66,390,078	68,085,005	71,630,000
Hammond Sanitary District	29,118,098	27,420,149	50,394,000
City of West Lafayette	26,705,557	27,803,066	48,500,000
City of Mishawaka	7,082,622	389,000	42,440,000
Gary Sanitary District	18,730,938	18,415,868	40,482,000
City of New Albany	38,262,560	18,750,345	39,950,000
City of Vincennes	26,875,595	24,055,469	27,600,000
City of South Bend	19,078,799	18,213,668	24,095,000
City of Fort Wayne	21,991,350	18,897,394	23,500,000
City of Seymour	19,512,399	16,390,294	21,500,000
City of Peru	14,676,888	5,333,853	20,990,000
City of Kokomo	19,556,233	19,899,983	20,640,000
City of Bloomington	15,531,097	15,368,000	21,707,000
City of Valparaiso	15,400,000	15,550,000	16,000,000
Muncie Sanitary District	14,020,000	14,325,000	15,500,000
City of Franklin	10,009,027	10,439,027	14,203,000
East Chicago Sanitary District	9,704,595	10,259,595	14,000,000
Delaware County Regional Sewer District	13,241,624	12,289,043	14,100,000
<b>Drinking Water Fund</b>			
City of Mishawaka	21,718,101	22,041,779	26,010,000
City of Bloomington	20,488,113	13,715,844	22,950,000
City of Jasper	13,255,000	13,760,247	15,600,000
City of Huntingburg	7,514,000	7,814,939	8,500,000
Town of Syracuse	156,408		7,000,000
City of Michigan City	6,329,916	6,389,916	6,675,000



## NOTE 5 - DEFERRED CHARGES

Deferred charges represent bond issuance costs as of June 30, 2005 and 2004. These costs are being amortized using the interest method over the life of the related bonds. Accumulated amortization was \$3,742,162 and \$4,918,052 at June 30, 2005 and 2004, respectively. The net unamortized deferred charges were \$11,197,320 and \$11,567,780 at June 30, 2005 and 2004, respectively.

## NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYMENTS TO U.S. TREASURY

Several series of bonds issued by the Indiana Bond Bank in connection with the Programs were the subject of legal opinions as of the date of their issuance to the effect that interest on such bonds was excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). Under the Code, such exclusion is conditioned on continuing compliance with certain tax covenants including payment of certain earnings in excess of the bond yield to the U.S. Treasury as rebate or yield reduction payments. The estimated liabilities, which were calculated as of January 31, 2005. With respect to such bonds, as of June 30, 2005, the Programs did not have a liability.

## NOTE 7 - DUE TO INDIANA BOND BANK

The amounts due to Indiana Bond Bank at June 30, 2005 and 2004 for bonds issued on behalf of the Programs are summarized as follows:

	2005	2004
<b>Wastewater Fund:</b>		
Series 2004A Refunding Bonds issued April 7, 2004 for the aggregate amount of \$113,115,000 to refund the callable portion of the Series 1994A and 1995A Bonds, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 1.74% to 3.98%.	\$101,300,000	\$113,115,000
Series 2004B Bonds issued April 7, 2004 for the aggregate amounts of \$200,000,000, maturing from February 1, 2005 to February 1, 2025 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$167,480,000 was the final allocation to the WSRF program based upon the percentage of original bond proceeds allocated to each program.	164,456,986	172,760,000
Series 2004C Bonds issued June 23, 2004 for the aggregate amount of \$200,000,000, maturing serially through February 1, 2027 at interest rates ranging from 5.00% to 5.25%.	200,000,000	200,000,000
Series 2002A Refunding Bonds issued December 23, 2003 for the aggregate amount of \$75,070,000 to refund the callable portion of the Series 1993A Bonds, maturing from February 1, 2004 to February 1, 2013 at interest rates ranging from 1.86% to 4.84%.	62,090,000	69,670,000
Series 2002B Bonds issued December 23, 2003 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates from 4.00% to 5.375%. Of this amount, \$52,422,270 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	52,422,270	52,422,270

**NOTE 7 - DUE TO INDIANA BOND BANK (CONTINUED)**

	<b>2005</b>	<b>2004</b>
<b>Wastewater Fund:</b>		
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2003 to February 1, 2023 at interest rates from 3.5% to 5.5%. Of this amount, \$320,104,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$ 317,451,138	\$ 319,575,828
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing August 1, 2019 to August 1, 2023 at interest rates from 5.00% to 5.35%. Of this amount, \$69,950,000 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program.	69,950,000	69,950,000
Series 2000A Bonds issued April 25, 2000 for the aggregate amount of \$143,590,000, maturing serially through August 1, 2022 at interest rates from 4.75% to 5.875%. Of this amount, \$122,197,429 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program.	110,690,164	114,282,478
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates from 4.00% to 5.00%. Of this amount, \$67,750,534 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program.	58,993,172	61,400,666
Series 1997A Bonds issued September 1, 1997 for the aggregate amount of \$85,000,000, maturing serially through February 1, 2019 at interest rates from 4.50% to 6.00%.	76,835,000	79,385,000
Series 1995A Bonds issued January 1, 1995, for the aggregate amount of \$80,000,000, maturing serially through February 1, 2017 at interest rates from 5.6% to 7.00%. Partially refunded in 2004, by Series 2004A and paid off in 2005.		<u>3,725,000</u>
Subtotal-Wastewater	<u>1,214,188,730</u>	<u>1,256,286,242</u>

**NOTE 7 - DUE TO INDIANA BOND BANK (CONTINUED)**

	<b>2005</b>	<b>2004</b>
<b>Drinking Water Fund:</b>		
Series 2004B Bonds issued April 7, 2004 for aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$32,520,000 was the final allocation to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$ 31,933,014	\$ 27,240,000
Series 2002B Bonds issued December 23, 2003 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates from 4.00% to 5.375%. Of this amount, \$14,272,730 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	14,272,730	14,272,730
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2003 to February 1, 2023 at interest rates from 3.5% to 5.5%. Of this amount, \$79,896,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	79,233,862	79,764,172
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing August 1, 2019 to August 1, 2023 at interest rates from 5.00% to 5.35%. Of this amount, \$30,050,000 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program.	30,050,000	30,050,000
Series 2000A Bonds issued April 25, 2000 for the aggregate of \$143,590,00, maturing serially through August 1, 2022 at interest rates from 4.75% to 5.875%. Of this amount, \$21,392,571 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program.	19,369,836	20,007,522
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates from 4.00% to 5.00%. Of this amount, \$22,249,466 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program.	<u>19,371,828</u>	<u>20,164,334</u>
Subtotal-Drinking Water	<u>194,231,270</u>	<u>191,498,758</u>
Total Principal	1,408,420,000	1,447,785,000
Loss on refunding	(4,294,288)	(5,681,080)
Net premium (discount) on bonds payable	<u>39,710,566</u>	<u>43,548,139</u>
Total Due to Indiana Bond Bank	1,443,836,278	1,485,652,059
Less: Current portion	<u>46,695,000</u>	<u>39,365,000</u>
Long-Term Portion	<u>\$1,397,141,278</u>	<u>\$1,446,287,059</u>

## NOTE 7 - DUE TO INDIANA BOND BANK (CONTINUED)

The aggregate debt service requirements for all bonds allocable to the Program as of June 30, 2005, are as follows:

	Principal			Interest			Debt Service Total
	Wastewater Fund	Drinking Water Fund	Total	Wastewater Fund	Drinking Water Fund	Total	
2006	\$ 43,449,020	\$ 3,245,980	\$ 46,695,000	\$ 59,731,317	\$ 9,999,049	\$ 69,730,366	\$ 116,425,366
2007	45,945,783	3,594,217	49,540,000	58,173,844	9,841,478	68,015,322	117,555,322
2008	49,035,783	3,984,217	53,020,000	56,386,756	9,665,511	66,052,267	119,072,267
2009	51,770,608	4,344,392	56,115,000	54,363,376	9,470,275	63,833,651	119,948,651
2010	55,724,488	4,980,512	60,705,000	52,080,795	9,240,275	61,321,070	122,026,070
2011-2015	319,140,286	48,474,714	367,615,000	216,598,655	40,721,337	257,319,992	624,934,992
2016-2020	369,392,027	71,552,973	440,945,000	127,348,276	25,010,636	152,358,912	593,303,912
2021-2025	251,215,735	54,054,265	305,270,000	37,144,496	5,652,493	42,796,989	348,066,989
2026-2027	<u>28,515,000</u>		<u>28,515,000</u>	<u>2,264,588</u>		<u>2,264,588</u>	<u>30,779,588</u>
	1,214,188,730	194,231,270	1,408,420,000	664,092,103	119,601,034	783,693,157	2,192,113,157
Loss on Refunding	(4,294,288)		(4,294,288)				(4,294,288)
Premium/ (Discount)	<u>34,559,680</u>	<u>5,150,886</u>	<u>39,710,566</u>				<u>39,710,566</u>
Total	<u>\$1,244,454,122</u>	<u>\$199,382,156</u>	<u>\$1,443,836,278</u>	<u>\$664,092,103</u>	<u>\$119,601,034</u>	<u>\$783,693,157</u>	<u>\$2,227,529,435</u>

The following is a summary of total debt service:

	Interest Rates Ranges	Maturity Range	Annual Payment Range	Principal
Wastewater Fund	1.74% -6.00%	2006-2027	\$15,387,550 - \$110,597,932	\$1,214,188,730
Drinking Water Fund	2.00% -5.88%	2006-2027	1,869,300 - 19,865,766	<u>194,231,270</u>
Combined Programs	1.74% -6.00%	2006-2027	17,256,850 - 130,463,698	1,408,420,000
Less: Current Portion				<u>46,695,000</u>
Total Long-term Portion				<u>\$1,361,725,000</u>

In the prior fiscal year, the Bond Bank issued Series 2004A Bonds for the aggregate amount of \$113,115,000 for a current refunding of the callable portion of Series 1994A and 1995A Bonds. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$4.0 million. The transaction also resulted in an economic gain of \$13.0 million and a reduction of \$18.7 million in future debt service payments.

## NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2005 and 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due Thereafter
<b>June 30, 2005:</b>						
Amount due federal government	\$ 847,415		\$ 847,415			
Due to Indiana Bond Bank	1,447,785,000		39,365,000	\$1,408,420,000	\$46,695,000	\$1,361,725,000
Loss on refunding	(5,681,080)	\$1,386,792		(4,294,288)		(4,294,288)
Net premium on bonds payable	43,548,139		3,837,573	39,710,566		39,710,566
	<u>\$1,486,499,474</u>	<u>\$1,386,792</u>	<u>\$44,049,988</u>	<u>\$1,443,836,278</u>	<u>\$46,695,000</u>	<u>\$1,397,141,278</u>
<b>June 30, 2004:</b>						
Amount due federal government	\$ 1,751,854		\$ 904,439	\$ 847,415		\$ 847,415
Due to Indiana Bond Bank	1,061,945,000	\$513,115,000	127,275,000	1,447,785,000	\$39,365,000	1,408,420,000
Loss on refunding	(3,137,065)	1,431,144	3,975,159	(5,681,080)		(5,681,080)
Net premium on bonds payable	19,826,334	26,849,634	3,127,829	43,548,139		43,548,139
	<u>\$1,080,386,123</u>	<u>\$541,395,778</u>	<u>\$135,282,427</u>	<u>\$1,486,499,474</u>	<u>\$39,365,000</u>	<u>\$1,447,134,474</u>

## NOTE 9 – FUND TRANSFERS

Consistent with its Intended Use Plans and EPA's related Policy Statement, the State is required to report on transfers between the Drinking Water SRF and the Wastewater SRF in its Financial Statements. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2005, an amount up to 33% of the Safe Drinking Water Act grants for FFY's 1997 through 2002 could be so transferred on a net cumulative basis between the two SRF funds. Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2002, to date, the following transfers were made from the Restricted Subaccount of the Wastewater Equity Account held under the Wastewater Indenture (which represents Federal grants previously converted to cash and deposited in that account) to Drinking Water Trustee deposit in the Restricted Subaccount of the Drinking Water Equity Account held under the Drinking Water Indenture:

2001	\$20,464,898
2002	3,270,417

## NOTE 10 – PROGRAM REVENUE

For the years ended June 30, 2005 and 2004, program revenues consisted of the following:

	2005	2004
Operating grants and contributions	\$ 76,963,361	\$ 66,350,024
Capital grants and contributions	<u>34,714,559</u>	<u>62,789,366</u>
	<u>\$111,677,920</u>	<u>\$129,139,390</u>

## NOTE 11 - OTHER INCOME

Other income consists of the portion of EPA capitalization grants converted to cash and deposited in the Drinking Water Equity Account based on incurred administrative expenses claimed.

## NOTE 12 - SUBSEQUENT EVENT

The Indiana Finance Authority (Finance Authority) was reconstituted pursuant to amendments made to Indiana Code 4-4-11 *et seq.*, the WSRF Act and the SWSRF pursuant to Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 (PL 235). Pursuant to PL 235, the Finance Authority became the successor to the State, acting through the State Budget Agency and its Department of Environmental Management, for purposes of holding, administering, managing, and financing the Programs, and the SRF Funds. In addition, pursuant to PL 235, the Finance Authority also became the successor to the Indiana Bond Bank related to the Programs. As a result of PL 235, the responsibility for the Programs has been consolidated into one entity, the Finance Authority. The financial statements reflect the legal and entity structure as in effect prior to the effective date of PL 235. The new entity structure will take effect July 1, 2005.

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*Independent Auditors' Report  
on Additional Information*

State of Indiana  
State Revolving Fund Programs

Our report on our audits of the basic combined financial statements of the State Revolving Fund Programs for the years ended June 30, 2005 and 2004 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position and results of operations of the individual programs. They are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
August 17, 2005

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**COMBINING SCHEDULES-STATEMENTS OF NET ASSETS INFORMATION  
June 30, 2005 and 2004**

	<b>Wastewater Program</b>		<b>Drinking Water Program</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>						
Current Assets:						
Cash and equivalents	\$ 504,564,202	\$ 605,052,511	\$ 67,058,273	\$ 55,782,645	\$ 571,622,475	\$ 660,835,156
Interest receivable-investments	12,311,564	11,948,292	1,991,100	1,900,783	14,302,664	13,849,075
Interest receivable-loans	11,983,184	9,176,022	1,981,440	1,489,469	13,964,624	10,665,491
Due from EPA		31,939,281		8,764,342		40,703,623
Loans receivable	34,663,552	35,464,056	6,610,085	5,573,596	41,273,637	41,037,652
Total Current Assets	<u>563,522,502</u>	<u>693,580,162</u>	<u>77,640,898</u>	<u>73,510,835</u>	<u>641,163,400</u>	<u>767,090,997</u>
Noncurrent Assets:						
Investments	445,262,483	455,374,614	83,091,308	84,563,858	528,353,791	539,938,472
Loans receivable	836,959,004	710,811,655	159,319,896	145,671,512	996,278,900	856,483,167
Deferred charges, net	9,904,622	10,177,434	1,292,698	1,390,346	11,197,320	11,567,780
Total Noncurrent Assets	<u>1,292,126,109</u>	<u>1,176,363,703</u>	<u>243,703,902</u>	<u>231,625,716</u>	<u>1,535,830,011</u>	<u>1,407,989,419</u>
Total Assets	<u>1,855,648,611</u>	<u>1,869,943,865</u>	<u>321,344,800</u>	<u>305,136,551</u>	<u>2,176,993,411</u>	<u>2,175,080,416</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Interest payable	24,947,305	19,594,109	4,178,250	3,847,302	29,125,555	23,441,411
Accounts payable	197,364	147,777			197,364	147,777
Amount due federal government-current		431,201				431,201
Due to Indiana Bond Bank-current	43,449,020	36,921,805	3,245,980	2,443,195	46,695,000	39,365,000
Total Current Liabilities	<u>68,593,689</u>	<u>57,094,892</u>	<u>7,424,230</u>	<u>6,290,497</u>	<u>76,017,919</u>	<u>63,385,389</u>
Long-term Liabilities:						
Amount due federal government		721,151		126,264		847,415
Due to Indiana Bond Bank	1,201,005,102	1,255,461,131	196,136,176	190,825,928	1,397,141,278	1,446,287,059
Total Long-term Liabilities	<u>1,201,005,102</u>	<u>1,256,182,282</u>	<u>196,136,176</u>	<u>190,952,192</u>	<u>1,397,141,278</u>	<u>1,447,134,474</u>
Total Liabilities	<u>1,269,598,791</u>	<u>1,313,277,174</u>	<u>203,560,406</u>	<u>197,242,689</u>	<u>1,473,159,197</u>	<u>1,510,519,863</u>
<b>NET ASSETS</b>						
Restricted for water pollution and drinking water projects and other program purposes	<u>\$ 586,049,820</u>	<u>\$ 556,666,691</u>	<u>\$ 117,784,394</u>	<u>\$ 107,893,862</u>	<u>\$ 703,834,214</u>	<u>\$ 664,560,553</u>



**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**COMBINING SCHEDULES-STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION  
Years Ended June 30, 2005 and 2004**

	<b>Wastewater Program</b>		<b>Drinking Water Program</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>OPERATING REVENUE</b>						
Interest income-investments	\$ 37,633,332	\$ 32,262,646	\$ 5,767,208	\$ 5,484,197	\$ 43,400,540	\$ 37,746,843
Interest income-participants	27,826,563	23,537,640	5,016,516	4,128,906	32,843,079	27,666,546
Administration fee	20,000	1,000	10,000	1,000	30,000	2,000
Other			689,742	934,635	689,742	934,635
Total Operating Revenue	<u>65,479,895</u>	<u>55,801,286</u>	<u>11,483,466</u>	<u>10,548,738</u>	<u>76,963,361</u>	<u>66,350,024</u>
<b>OPERATING EXPENSES</b>						
Interest	58,147,536	47,770,100	9,388,486	9,557,902	67,536,022	57,328,002
Amortization of deferred charges	1,058,015	1,068,307	137,724	135,349	1,195,739	1,203,656
Trustee fees	1,076,678	485,815	121,960	63,460	1,198,638	549,275
Other program and administrative	1,784,118	974,678	689,742	934,635	2,473,860	1,909,313
Total Operating Expenses	<u>62,066,347</u>	<u>50,298,900</u>	<u>10,337,912</u>	<u>10,691,346</u>	<u>72,404,259</u>	<u>60,990,246</u>
<b>OPERATING INCOME (LOSS)</b>	3,413,548	5,502,386	1,145,554	(142,608)	4,559,102	5,359,778
<b>CAPITAL CONTRIBUTIONS</b>	<u>25,969,581</u>	<u>54,074,805</u>	<u>8,744,978</u>	<u>8,714,561</u>	<u>34,714,559</u>	<u>62,789,366</u>
<b>INCREASE IN NET ASSETS</b>	29,383,129	59,577,191	9,890,532	8,571,953	39,273,661	68,149,144
<b>NET ASSETS</b>						
Beginning of Year	<u>556,666,691</u>	<u>497,089,500</u>	<u>107,893,862</u>	<u>99,321,909</u>	<u>664,560,553</u>	<u>596,411,409</u>
End of Year	<u>\$ 586,049,820</u>	<u>\$ 556,666,691</u>	<u>\$ 117,784,394</u>	<u>\$ 107,893,862</u>	<u>\$ 703,834,214</u>	<u>\$ 664,560,553</u>

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE STATE OF INDIANA)**

**COMBINING SCHEDULES-STATEMENTS OF CASH FLOWS INFORMATION  
Years Ended June 30, 2005 and 2004**

	<b>Wastewater Program</b>		<b>Drinking Water Program</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash payments for salaries, administrative and other expenses	\$ (2,811,209)	\$ (1,609,534)	\$ (811,702)	\$ (1,059,571)	\$ (3,622,911)	\$ (2,669,105)
Administration fee	20,000	1,000	10,000	1,000	30,000	2,000
Other operating income			689,742	934,635	689,742	934,635
Net Cash (Used) by Operating Activities	<u>(2,791,209)</u>	<u>(1,608,534)</u>	<u>(111,960)</u>	<u>(123,936)</u>	<u>(2,903,169)</u>	<u>(1,732,470)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Maturities of loans to participants	36,801,625	31,467,618	9,767,580	4,911,550	46,569,205	36,379,168
Issuance of loans to participants	(174,888,507)	(115,996,656)	(17,476,643)	(30,251,864)	(192,365,150)	(146,248,520)
Decrease in investments	10,112,131	107,767,152	3,323,897	20,895,459	13,436,028	128,662,611
Interest received on loans and investments	65,459,895	57,057,357	10,783,724	8,594,330	76,243,619	65,651,687
Net Cash Provided (Used) by Investing Activities	<u>(62,514,856)</u>	<u>80,295,471</u>	<u>6,398,558</u>	<u>4,149,475</u>	<u>(56,116,298)</u>	<u>84,444,946</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Proceeds from debt issuance		512,724,636		27,240,000		539,964,636
Principal payments to reduce indebtedness	(36,826,690)	(132,208,923)	(2,538,310)	(1,425,412)	(39,365,000)	(133,634,335)
Payment of issuance costs	(785,202)	(3,152,435)	(40,075)	(197,434)	(825,277)	(3,349,869)
Decrease in amount due federal government	(721,151)	(435,247)	(126,264)	(37,991)	(847,415)	(473,238)
Interest paid on debt	(54,758,063)	(47,545,381)	(9,815,641)	(8,664,725)	(64,573,704)	(56,210,106)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(93,091,106)</u>	<u>329,382,650</u>	<u>(12,520,290)</u>	<u>16,914,438</u>	<u>(105,611,396)</u>	<u>346,297,088</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>						
Capital Contributions	57,908,862	31,919,976	17,509,320	8,022,272	75,418,182	39,942,248
Net Cash Provided by Capital Financing Activities	<u>57,908,862</u>	<u>31,919,976</u>	<u>17,509,320</u>	<u>8,022,272</u>	<u>75,418,182</u>	<u>39,942,248</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(100,488,309)	439,989,563	11,275,628	28,962,249	(89,212,681)	468,951,812
<b>CASH AND EQUIVALENTS</b>						
Beginning of Year	<u>605,052,511</u>	<u>165,062,948</u>	<u>55,782,645</u>	<u>26,820,396</u>	<u>660,835,156</u>	<u>191,883,344</u>
End of Year	<u>\$ 504,564,202</u>	<u>\$ 605,052,511</u>	<u>\$ 67,058,273</u>	<u>\$ 55,782,645</u>	<u>\$ 571,622,475</u>	<u>\$ 660,835,156</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 3,413,548	\$ 5,502,386	\$ 1,145,554	\$ (142,608)	\$ 4,559,102	\$ 5,359,778
Adjustments to reconcile operating income (loss) to net cash used by operating activities:						
Interest income	(65,459,895)	(55,800,286)	(10,783,724)	(9,613,103)	(76,243,619)	(65,413,389)
Interest expense	58,147,536	47,770,100	9,388,486	9,557,902	67,536,022	57,328,002
Amortization of deferred charges	1,058,015	1,068,307	137,724	135,349	1,195,739	1,203,656
Changes in assets and liabilities:						
Accounts payable	49,587	(149,041)		(61,476)	49,587	(210,517)
Net Cash Used by Operating Activities	<u>\$ (2,791,209)</u>	<u>\$ (1,608,534)</u>	<u>\$ (111,960)</u>	<u>\$ (123,936)</u>	<u>\$ (2,903,169)</u>	<u>\$ (1,732,470)</u>